



# BIH TOURISM INVESTMENT

## OBSTACLES AND OPPORTUNITIES

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### Acronyms and Abbreviations

Item	Meaning
BiH	Bosnia and Herzegovina
CCA	Cluster Competitiveness Activity
TBD	To be determined
WTTC	World Tourism and Travel Council
US	United States
USAID	U.S. Agency for International Development
FIPA	Foreign Investment Promotion Agency
EU	European Union
EBRD	European Bank for Reconstruction and Development
GTZ	German International Development Agency
IFC	International Finance Corporation, World Bank Group
KM	Bosnian Marks
ZOI	Sarajevo Olympic Committee
ILF	International Lipizzaner Federation
DPHCH	Department of Preservation of Historical and Cultural Heritage

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## **1. EXECUTIVE SUMMARY**

Tourism is one of the world's largest and fastest growing industries, and a proven tool for promoting broad-based economic development. Virtually every country on the planet possesses assets that can be developed, packaged and promoted to foreign visitors and become important sources of foreign exchange earnings, employment, and enterprise development.

Bosnia and Herzegovina (BiH) is no exception. It is, in fact, blessed with a wide range of tourism-related assets, from wild, pristine rivers to snow-capped mountains, and a remarkable history as an ethnic and religious melting pot and frontier between the Ottoman and Austro-Hungarian empires.

To date that potential remains largely unexploited. With a few notable exceptions (e.g., Medjugorje), BiH is, in tourism terms, unknown. The two key obstacles inhibiting its development are a poor image in major outbound markets and an undeveloped product.

Despite the fact that more than a decade has past since the end of hostilities, the country is still perceived as war torn and unsafe. The principal tool for transforming that image is dedicated marketing and promotion, focused both on the consumer and travel trade. Efforts to date have been weak and ineffective. More clearly needs to be done.

The second obstacle, an undeveloped product, can be most effectively addressed through efforts to promote foreign and domestic investment, access to project finance, and technical assistance for tourism-related enterprises. CCA Cluster Working Groups are endeavoring to provide technical assistance and the Business Finance component of the project is working to improve access to credit. The focus of this report is strategies for promoting investment.

Based upon a two-week assessment of the challenges to and opportunities for tourism-related investment, it is clear that 1) there are significant and potentially highly profitable opportunities for both domestic and foreign investment in the tourism sector, and 2) that there are also significant obstacles, the most important of which may be quite challenging to overcome.

The greatest obstacle to tourism-related investment in BiH today is, most simply, too much government. The complex nature of the political structure conceived through the Dayton Peace Accords is well known and is likely the principal obstacle to all forms of investment promotion and commercial enterprise development in general. There are simply too many layers, too many competing political interests, too much bureaucracy, and, as reported by companies and investors interviewed, some level of corruption, though perhaps more importantly, a simple lack of competence, leading to inaction.

These bureaucratic barriers are not insurmountable and in fact have been overcome in the development of a number of Greenfield projects. The real challenge lies with the redevelopment and rehabilitation of assets damaged during the war.

The logical conclusion to be drawn from this analysis is that CCA investment promotion efforts should simply focus on new development, leaving these other assets to be dealt with by others, at some point in the future. The problem with this approach is that some of the best and most important investment opportunities in the country today, in terms of potential economic impact and helping to transform the country's war torn image, are these war-damaged assets.

The landscape in Sarajevo and other regions of the country is literally scarred with these bombed-out structures, which serve as constant and unneeded reminders to both residents and visitors of the country's troubled past. Rehabilitating (or in some cases tearing down) these eyesores will serve to revitalize the urban landscape, rebuild critical tourism-related infrastructure, and preserve some of the country's most important historic buildings.

In seeking to carve out a tourism-related investment promotion role for the CCA project, it is recommended that USAID, through CCA, use its unique position and standing to tackle these official obstacles head on. USAID has, in fact, taken up this role in the past, most visibly in assistance provided to the Sarajevo Canton Privatization Agency in privatizing the Holiday Inn hotel: [HTTP://WWW.USAID.GOV/STORIES/BH/FP\\_BH\\_BUILDING.HTML](http://www.usaid.gov/stories/BH/FP_BH_BUILDING.HTML).

While it would undoubtedly be simpler to take the path of least resistance and focus solely on Greenfield development, the most important and most lasting impact the Mission can have, in terms of attempting to catalyze the development of the country's tourism industry and reshape its international image, is to promote redevelopment of these historic structures, most importantly in the city of Sarajevo.

The first step in the process of defining a CCA investment promotion strategy was to examine, in detail, specific investment opportunities and obstacles. Significant progress was made during the initial assessment trip. The results of that work are presented in the following pages, including profiles of some of the most promising tourism-related investment opportunities in the country today (there are undoubtedly a number of others that could be assessed, but there is more than enough to launch a program with the list included in this report). The list of projects proposed as the focus of CCA investment promotion efforts includes:

***Sarajevo Cluster:***

- 1) Bristol Hotel
- 2) Hotel Europa
- 3) Bjelasnica
- 4) Ilidza Hotels and Spa
- 5) National Library

***Krajina Cluster:***

- 6) Lipizzaner Farm
- 7) Ostrozac Castle
- 8) Banja Vrucica Spa

***Herzegovina Cluster:***

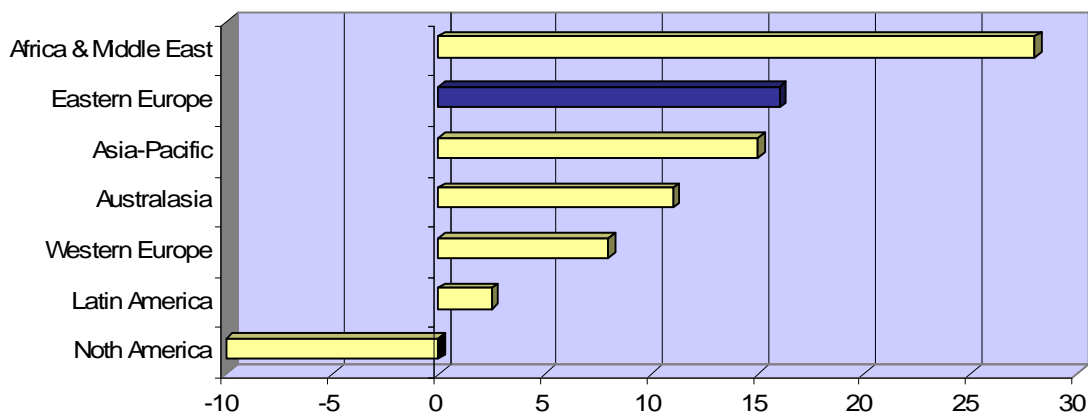
- 9) Vjetrenica Cave
- 10) Pocitelj Village
- 11) A Herzegovina Winery (TBD)

The assessment process is, however, incomplete. The most important task remaining is a more detailed examination of official obstacles to rehabilitation of a number of historic buildings that have significant redevelopment potential, including the former National Library, Hotel Europa, Bristol Hotel, Winter Olympics facilities, historic hotels and a spa in the Ilidza area, and castles, medieval villages, and other historic structures throughout the country. Once these obstacles have been identified potential solutions can be defined and dedicated efforts made to implement them.

## 2. OVERVIEW

Based upon the quality of BiH's tourism resource base and the performance of its principal competitors, it is clear that the country is not capturing its fair share of tourist arrivals and receipts. The country's image as worn torn and unsafe has certainly played an important role in that underperformance, but cannot account for all of it. Other countries, facing similar, though less significant challenges are growing market share at BiH's expense. For example, between 1999 and 2003 Eastern Europe was the second fastest growing world region in terms of tourist arrivals, growing at an average annual rate of more than 15 percent.

**Regional Growth in Tourist Arrivals. 1999-2003 (percent)**

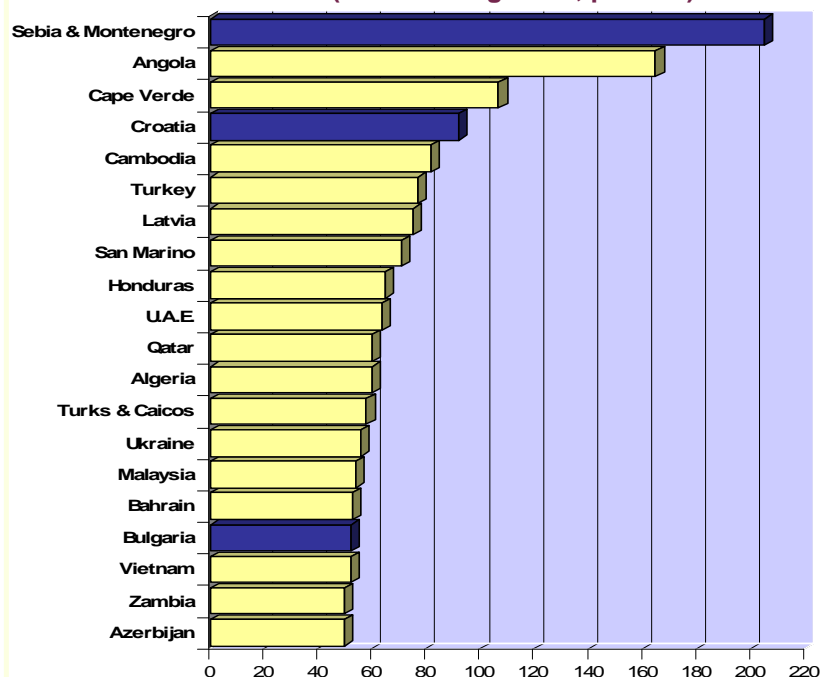


Source: Euromonitor

The fastest growing destination during that time period was BiH's neighbor, Serbia and Montenegro. Croatia achieved the fourth fastest rate of growth and Bulgaria placed in the top 20.

**World's 20 Fastest Growing Tourism Destinations**

1999-2003 (cumulative growth, percent)



Source: Euromonitor

Growth in tourist arrivals to BiH has grown at a much slower pace. While reliable tourism data is unavailable, the World Travel and Tourism Council (WTTC) estimates that arrivals are growing at roughly 5 percent per year.

The two principal factors driving this underperformance are a lack of marketing and promotion and an undeveloped product. BiH today, with the exception perhaps of Medjugorje, is principally an excursion for visitors to and from neighboring countries.

Marketing and promotion aimed at promoting a more positive image of BiH internationally is a major challenge but is not the focus of this report. The purpose here is to begin to define a plan for tourism-related investment promotion. Based upon an analysis of the country's competitive strengths and weaknesses, the principal focus of that strategy should be on product or "experience" development.

## **2.1 Defining Priorities**

The first step in this process should be to define desired outcomes. One of the most important should be to create economic opportunities for clusters and communities that surround some of BiH's most interesting tourist sites and attractions. Equally important, product development should be focused on attracting higher spending tourists and providing them with compelling opportunities to spend more time and money. It will require a new approach to product development that is much more creative and customer focused than programs of the past.

The third investment promotion priority, somewhat unique to BiH, should be to rehabilitate historic buildings and other structures for tourism purposes. Achievement of this objective will not only create badly needed capacity for tourism-related services, including lodging, dining and entertainment, but also help to revitalize the country's image, by removing very visible remnants of the country's troubled recent history.

## **2.2 Market Drivers**

BiH receives overnight visitors primarily from neighboring countries. While reliable data does not exist regarding the numbers of visitors, travel motivations, average lengths of stay, or average daily expenditures, it is relatively clear that they do not stay for very long and do not spend very much money.

The country also receives a small but growing number of visitors from more distant and higher spending markets in Western Europe and the U.S. (i.e., BiH is their primary destination). These markets should be the primary focus of future marketing and product development efforts. They are much larger, more diverse, higher income, higher spending, and have higher levels of interest in the types of experiences (adventure, culture) BiH is best positioned to develop.

While in the short term the most important opportunities to increase tourist arrivals and receipts from Western Europe and the U.S. may be to increase the number of excursions by Western European and US visitors from Croatia, Montenegro, and Slovenia, over the medium and longer term the objective should be to develop the attractions, infrastructure and services to establish BiH as an appealing standalone destination.

## 2.3 Targeted Investment Opportunities

There are a wide variety of investment opportunities in BiH's tourism sector. They can be categorized under three broad headings:

- I. **Winter/Adventure Sports and Spas**
- II. **Cultural and Historic Attractions and Events**
- III. **City Breaks, Modern History and Popular Culture**

### I. Winter/Adventure Sports and Spas

One of BiH's most significant opportunities to invest in the future growth of its tourism industry lies in the development of activity or experience-based products. In particular, relative to its neighbors, BiH has a number of potential competitive advantages in terms of its dramatic topography, relatively unspoiled environment, and history as a former Winter Olympics venue. These assets form a meaningful part of what make BiH unique, and represent perhaps its best means of competitively positioning itself to attract higher spending visitors.

The Bjelasnica ski area in particular should clearly be a high, if not the highest priority. Additional assessment work needs to be completed to attempt to define an investment promotion role for CCA and its investment promotion partners in this region and sector.

From research conducted to date, it is clear that a great deal of private, primarily domestic investment in accommodations capacity is being made in Bjelasnica, through a government tendering process. The problem is that corresponding investments are not being made in vertical infrastructure and in marketing and promoting the area as an international winter sports destination. Almost all current business is weekend oriented, which has resulted in long lift lines on Saturday and Sunday, and virtually no business Monday through Friday.

The other missing ingredient is other tourism related services, including shopping, dining, nighttime entertainment and the development of other winter and summer activities. Without additional infrastructure, marketing, and other tourism services the area will never realize its potential as an international destination, and never deliver the kinds of meaningful economic impacts it is capable of producing.

A second major focus of investment promotion under this heading is spas located throughout the country. The spa industry is a large and rapidly growing segment of the international travel market with a variety of specialized niches that could potentially be exploited. Adventure Spas, a new concept that integrates a spa experience with outdoor sports activities, like mountain biking and rock climbing, is one example. <http://www.redmountainspa.com/>

Existing spas in BiH are for the most part run down, down-market affairs that cater primarily to a domestic market focused on therapeutic treatments for psoriasis, rheumatism, and a range of other skin and respiratory ailments. There is a great deal of potential, but also a great deal of work to be done in terms of promoting new investment and refocusing segments of the industry on the health, wellness, fitness and beauty markets.

A third potential opportunity is the Vucijak Lipizzaner Stud Farm in eastern Bosnia. There are a number of challenges in terms of promoting private sector investment in this facility, not the least of which is that the Farm is majority owned by the public sector. But the raw potential for redevelopment is significant and could add meaningfully to the BiH product offer. <http://www.horseandhound.co.uk/best/396/56541.html>



A fourth potential focal point for sports-related investment promotion is white-water rafting and other adventure sports (mountain biking, trekking, canyoning, rock climbing, abseiling, zip lines, etc). White water rafting is the most developed adventure sport in BiH today, but needs additional investment, and perhaps more importantly technical assistance and marketing, to help service providers better penetrate markets in Western Europe and the U.S.

Additional attractions and tourism-related services also need to be developed to support and encourage medium and long-haul travel to BiH to pursue these activities. The major challenge to investment promotion in this area is that the types of investments required are often small scale and thus less interesting to typical foreign investors in the tourism sector.

What is likely also needed to develop this market is access to affordable financing and expanded technical and marketing assistance. For example, one of the premier rafting clubs in BiH, and hosts/organizers of the 2005 European Rafting Championships, does not even have an English (or German, or Italian) version of its website: <http://kanjonraft.com/> There are a great number of things that could be done at relatively low cost to help develop the potential of this market and attract higher spending and longer staying visitors.

Many of these adventure-related assets and attractions are found within the Krajina cluster and to a lesser degree the Herzegovina cluster. Winter sports facilities are located primarily within the Sarajevo cluster.

## **II. Cultural and Historic Attractions and Events:**

Another important potential source of competitive advantage for BiH is its cultural diversity.

Located at frontier of the former Ottoman and Austro-Hungarian empires, BiH possesses a rich cultural heritage and history that can and should be exploited. Potential investment promotion targets include medieval towns, villages, and castles which dot the landscape throughout the country. One of the most promising, identified and being actively promoted by a CCA heritage tourism consultant, is the village of Pocitelj. Specific targets include rehabilitation of structures and creation of small inns and guest houses in rural communities that can offer visitors authentic cultural experiences, fairs and cultural festivals, restoration and adaptive reuse of historic buildings (for lodging, restaurants, entertainment, etc.), and development of winery tours and related visitor services (lodging, food and beverage, etc.)

The primary targets for this type of investment promotion are the Sarajevo and Herzegovina clusters, though there are opportunities in the Krajina cluster as well.

## **III. City Breaks, Modern History and Popular Culture**

City Breaks is a large and growing segment of the international travel market, particularly from Western Europe, with the Balkans and Eastern Europe one of the most popular destinations. This market is, most simply, weekend or extended weekend escapes to metropolitan areas for sightseeing, better weather, experiencing different cultures, shopping, dining, and entertainment.

The recent growth of this market in Europe has been driven by the proliferation of low cost airlines, very low airfares, and deeply discounted offers from commercial hotels that cater primarily to business travelers and thus have excess capacity on weekends and holidays.

Sarajevo has the potential, over the medium to longer term, to become a City Break destination, given its location, diverse culture and attractions. Major obstacles include a lack of international-standard hotel capacity, other tourism-related services, the need, in some areas, for urban

renewal (through rehabilitation of historic buildings), and ultimately, marketing and promotion aimed at improving the image of the city and making travelers more aware of what it has to offer.

The first step in developing this market is to promote investment in the facilities and services required by travelers. While there is significant potential, there are also meaningful obstacles. One of the most important is unsettled land tenure issues. A significant amount of new investment, for the renovation of historical hotels and other buildings, is needed to realize the existing potential.

Popular culture is also an important potential market, and one that is already being exploited successfully in Sarajevo, in the form the Sarajevo Film Festival and Jazz Festival. There are, perhaps, other opportunities that can be identified and promoted that build upon the success of these events and their reshaping the image of the city.

## 2.4 Investment Promotion Challenges

Documented by a number of organizations seeking to promote foreign investment in BiH, the most significant tourism-related investment promotion challenges include:

### Challenges:

- ❖ Product development and innovation
- ❖ Organization, management, and market intelligence
- ❖ Red tape, land tenure, lack of transparency, and competing political structures
- ❖ Community integration and lack of tourism “know how”

Product development efforts must be market led. While BiH will may be able to compete on the basis of price in the short term, over the longer term the quality and innovative character of services and facilities provided will be the most important source of competitive advantage.

### Opportunities:

- ❖ A unique and diverse product offering waiting to be developed
- ❖ Ability to employ best practices from other destinations

The proposed short-term (three-year) target is to identify 10-15 projects with good investment promotion potential and secure investment or financing for the first-phase development (or redevelopment) of at least five sites or attractions.

## 2.5 Investment Promotion Process

While securing the investment required to achieve this goal is significant, the process is relatively straightforward, consisting of the following 10 steps:

- Task 1. Identify stakeholders and potential partners**
- Task 2. Define roles, responsibilities and objectives**
- Task 3. Identify projects to be promoted**
- Task 4. Identify obstacles to investment promotion and provide technical and other forms of assistance required to overcome them.**
- Task 5. Identify potential investors**
- Task 6. Prepare business plans and pre-feasibility studies**
- Task 7. Prepare and produce prospectus materials**
- Task 8. Organize and conduct initial outreach and recon missions**
- Task 9. Organize and conduct investment mission(s)**
- Task 10. Organize and conduct investment conference**

## **2.6 Work Completed to Date:**

One of the primary obstacles to development of a CCA tourism investment promotion program was lack of a local counterpart and partner. The logical choice is and was the Foreign Investment Promotion Agency (FIPA), but until very recently it lacked a director and a direction. A new director has been appointed and he is working to redefine the agency's mission and programs. There is considerable work still to be done. Hopefully, through a range of collaborative efforts already initiated, including development of a Foreign Investors Council, CCA will be able to have a meaningful impact in helping to build FIPA's internal capacity to design and execute tourism-related investment promotion programs.

Meetings have also been held with EU representatives implementing a capacity building project within FIPA and with representatives of the European Bank for Reconstruction and Development (EBRD). Both have agreed in principal to work closely with CCA defining and executing programs aimed at promoting tourism-related investment. The next step is to convene a meeting with these two organizations, the new director of FIPA and other potential partners, including the IFC, GTZ, and the Austrian Embassy, which has been active in helping to promote investment from Austria.

The principal focus of initial investment promotion program development efforts was the assessment of a range of specific tourism investment opportunities. The results of that assessment are presented in the following pages.

### 3. INVESTMENT OPPORTUNITIES

Below is an initial project list developed by the CCA team; more than 20 individual projects. While several of these projects we assessed only the 11 most important projects are included in this report. Additional projects could be analyzed and profiled in the future. Efforts should be made to add to this list, which can be used to create a database of projects for future investment promotion activities.

The initial list includes a mix of project types, in terms of:

- **Product** – hotels, spas, ski areas, public-use facilities, natural area/outdoor sports, and cultural products (e.g., medieval village or castle).
- **Size** – Small, medium and large
- **Investment** – Private, Development Finance/Venture Capital Funding, Public/Private (concession model), and Public (public-use facilities).

#### ***Sarajevo Cluster:***

- Hotel Europa, Hotel Central and Bristol Hotel
- Jajce Project
- Jajce Village
- Fojnica Spa area
- Bjelasnica and Igman
- Historic Hotels and Spa near Therme Spa in Ilidza
- Skandaria Sports Center
- National Library

#### ***Krajina Cluster:***

- Vlasica and Kozara Ski areas and National Park
- River rafting projects
- Ostrožac Castle
- Lipizzaner Farm
- Kulasi Spa
- Gata Spa
- Banja Vrućica Spa

#### ***Herzegovina Cluster:***

- Wineries (B&B and winery tours)
- Kupres Ski area
- Vjetrenica Cave
- Dranno Stone Village
- Monasteries
- Hotel Naretva and other historic hotels and buildings in Mostar
- Pocitelj Village

The list of proposed targets, below, includes some of the most important tourism-related historic structures in the country and covers a broad mix of product types that will create the product base needed to attract BiH's most promising potential markets. There is additional research needed that could not be completed during this visit, due primarily to lack of availability of project sponsors or government officials able to provide project details.

**Proposed Target List:**

***Sarajevo Cluster:***

- 1) Bristol Hotel
- 2) Hotel Europa
- 3) Bjelasnica
- 4) Ilidza Hotels and Spa
- 5) National Library

***Krajina Cluster:***

- 6) Lipizzaner Farm
- 7) Ostrozac Castle
- 8) Banja Vrucica Spa

***Herzegovina Cluster:***

- 9) Vjetrenica Cave
- 10) Pocitelj Village
- 11) A Winery (unable to arrange visit during this trip)

## Sarajevo Cluster

## Bristol Hotel

**Project Overview:**

Opened in the early 1980's, the Bristol was, according to the project director, a 5-star hotel that catered to business travelers during the week and on weekends tourists from Dubrovnik and Medjugorje. It reportedly achieved an average annual occupancy of 70 percent.

After the breakup of Yugoslavia the hotel reverted to the BiH government. It was on the front lines during the war and was significantly damaged and ceased operations in 1992. In 1996 ownership of the hotel was transferred to the Cantonal government, a renovation plan was drafted and the hotel was partially privatized. The building was valued at 3.3 million KM, which represented the value of the Canton's 33.3 percent ownership stake. Two other investors, the Holiday Inn (which until very recently was also government owned) and a private German investor agreed to contribute an additional 3.3 million KM each, bringing the total value of the company to 9.9 million KM.

The cost of the renovation was estimated (in 1997) at 22 million KM. About 2 million KM was expended to lay the ground work for the renovation, including architectural studies, licenses and permits, and an environmental impact study.


The renovated hotel is envisioned as a 200-room four star hotel with a large conference center and underground parking.

Bureaucracy and red tape prevented implementation of the renovation plan. The German investor tried for a number of years to purchase 100 percent ownership. He finally gave up in 2004 and sold his stake to Al Shaddi International, Ltd., a London-based investment company owned by Sulaiman Al Shaddi, an entrepreneur from Dubai. Since the purchase Mr. Al Shaddi has been attempting to purchase the hotel outright but the Cantonal government has thus far failed to define or adopt a privatization plan.

The Canton Privatization Agency is responsible for defining the privatization program and issuing the tender. The agency has taken no action and is reportedly waiting until the completion of the next round of elections before putting a plan forward, as it would need to be voted on and approved by the Canton Government. This legislative body is, according to the project manager, where the real bottleneck lies. Legislators are, in his view, captive to local interests who want to delay the process indefinitely, until potential investors lose interest and walk away from the deal and the property can be purchased at a fraction of the current estimated value. That value has already declined to an estimated 6.6 million KM (from 9.9 million KM).

The Bristol, still majority owned by the Canton government, is also reportedly suing the Canton privatization agency for what it claims was the illegal privatization of a building directly in front of and attached to the hotel, claiming that the building was a part of the Bristol property.


The hotel is ideally situated within an area slated to receive significant amounts of new investment, including the development of new U.S., Saudi, Malaysian, Turkish, British and Iranian embassies. The new British embassy will reportedly be

	<p>constructed directly across the small access road running parallel to the hotel property. Plans are also well underway for the renovation and expansion of the nearby Holiday Inn, recently purchased by Austrian investors, and construction of new office towers and a convention center opposite the Holiday Inn. Mr. Al Shaddi has purchased additional land in this area and will reportedly be making significant commercial real estate investments there.</p> <p>In short, this part of the city will in the not-to-distant future become the center for business and diplomatic activity in Sarajevo, with the Bristol ideally situated to capture a significant amount of the business and official travel market.</p>
<b>Photos:</b>	
<b>Assessment:</b>	<p>The hotel is a scar (one of many) on Sarajevo's urban landscape, an unneeded reminder, for both local residents and visitors, of the city's troubled recent past, and an opportunity that is being squandered to generate jobs and visitor spending and improve the business and investment environment in Sarajevo.</p> <p>The hotel should be privatized as soon as possible so that reconstruction efforts can begin. If reconstruction is not initiated within the next few years the existing building may become unsalvageable and need to be completely torn down, which would significantly increase development costs (both for the demolition and reconstruction).</p> <p>Anecdotally (there is no reliable data on hotel occupancies in the city), there is clearly demand for additional hotel rooms in the city. Most hotels appear to be operating near full capacity throughout the year.</p>
<b>Proposed Actions:</b>	<ul style="list-style-type: none"> <li>• Meet with Canton Privatization Agency and other government officials responsible for or involved in the privatization of the hotel. Define principal obstacles to privatization of the property.</li> <li>• Meet with representatives from Al Shaddi Investments to verify that the obstacles identified are the primary cause for delay of privatization efforts.</li> <li>• Work with the Privatization Agency to define and implement, in an expedited manner, a privatization plan for the hotel.</li> <li>• Where feasible/applicable, highlight political obstacles and work to apply pressure to overcome them.</li> </ul>



<b>Actors:</b>	<ul style="list-style-type: none"> <li>• Canton Privatization Agency</li> <li>• Cantonal Government</li> </ul>
<b>Desired Outcome:</b>	Privatization and redevelopment of the hotel.

### Hotel Europa

<b>Project Overview:</b>	<p>A famous landmark, located in the heart of the old section of the city (Bascarsija). On the front lines during the war, it received significant damage and has since been gutted. GTZ reportedly provided technical assistance to the Sarajevo Canton Privatization Agency in 2004, though the results of those efforts are unknown and not apparent, as the hotel remains dormant, damaged, and detracts significantly from the urban streetscape.</p>
<b>Photos:</b>	



<b>Assessment:</b>	<p>The hotel would appear to be one of the most attractive investment promotion targets in the city, because:</p> <ul style="list-style-type: none"> <li>• It is the largest hotel in the old section of the city, there is very little developable land within this zone, and there would appear to be significant excess demand for hotel rooms in this area. The two Astra Hotels and the Hotel Europa Garni, the three largest hotels in the Bascarsija area, are frequently sold out.</li> <li>• Redevelopment would dramatically improve the image of this part of the city and likely catalyze development of other nearby war-damaged structures. Increased hotel capacity would also stimulate more visitor traffic and opportunities for development of other tourism-related services, including restaurants and nighttime entertainment. The hotel would also appear to be large enough to provide space for some of these services, as well as facilities to serve the meetings market and enough rooms to support development of the group travel market, as none of the other hotels in this area are large enough to accommodate these market segments.</li> </ul>
<b>Proposed Actions:</b>	<ul style="list-style-type: none"> <li>• Meet with Canton Privatization Agency and other government officials responsible for or involved in the privatization of the hotel. Define principal obstacles to privatization of the property.</li> <li>• Meet with representatives from GTZ to define scope of previous efforts, obstacles encountered, and status of any ongoing assistance related to privatization of the hotel.</li> <li>• Work the Privatization Agency to define and implement, in an expedited manner, a privatization plan for the hotel, including, as required, technical assistance (feasibility study, legal framework, tender documents, etc.).</li> <li>• Identify and recruit potential investors.</li> <li>• If applicable, highlight political obstacles and work to apply pressure to overcome them.</li> </ul>
<b>Actors:</b>	<ul style="list-style-type: none"> <li>• Canton Privatization Agency</li> <li>• Cantonal Government</li> <li>• GTZ</li> </ul>
<b>Desired Outcome:</b>	Privatization and redevelopment of the hotel.

## Bjelasnica

### Project Overview:

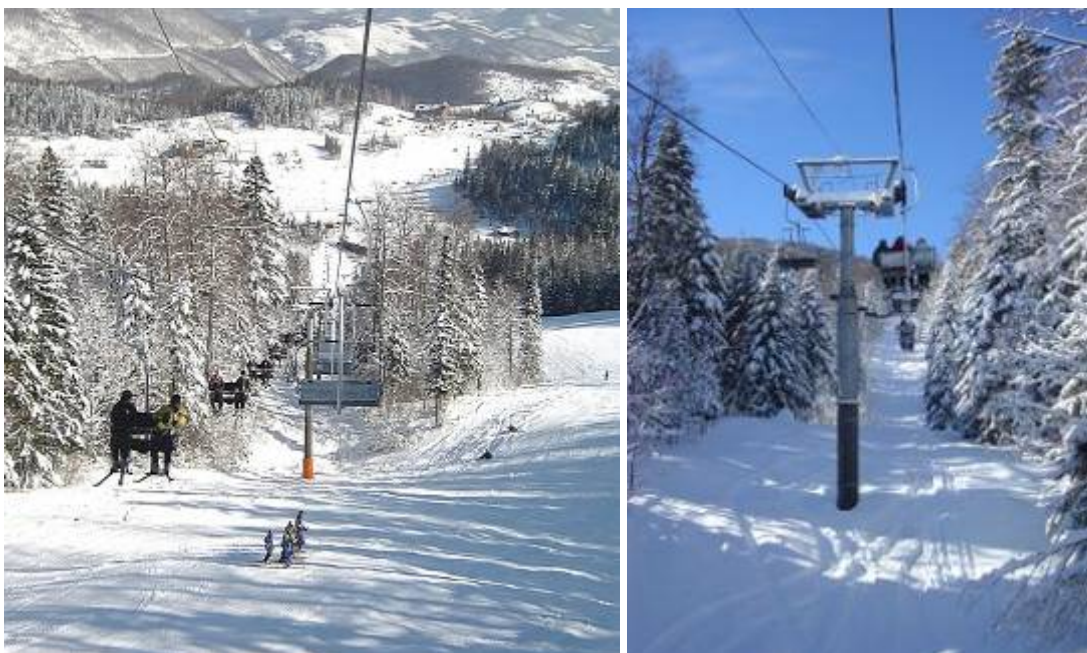
The country's most famous and most popular Ski area, home to Downhill and other events during the 1984 Winter Olympics. Considerable new investment has been made (Bjelasnica Phase I) and is being planned (Phase II).

Nearly all of that investment, however, has and is being targeted on the creation of additional accommodations capacity, in the form of the development of condominiums and apartments and the renovation of existing hotel properties and development of new ones.

As a result a significant imbalance is being created between the number of visitors the area is able to accommodate and the vertical infrastructure that is needed to provide overnight and day visitors from Sarajevo with a positive skiing experience. The area also lacks a range of other tourism-related services, including restaurants, bars, shopping and nighttime entertainment that would greatly improve the competitive position of the area and help Bjelasnica penetrate the international winter sports market.

International market development is the critical missing component in successful redevelopment of the area. At present business is nearly all local, from Sarajevo Canton and nearby regions, and almost exclusively weekend oriented. As a result there is significant imbalance in capacity utilization (long lift lines on weekends and virtually no one there Monday thru Friday), which greatly impacts the financial performance of the area and results in missed opportunities to generate employment and visitor spending.

### Photos:



<b>Assessment:</b>	<p>Based upon the natural resource base, existing infrastructure, and the area's history as a Winter Olympics venue, Bjelasnica represents one of BiH's most important tourism assets and a comparative advantage relative to other competitors in the region.</p> <p>Development of the area is vital to the success of efforts to develop BiH as a year-round international tourism destination.</p> <p>The critical areas that need to be addressed to transform Bjelasnica include:</p> <ul style="list-style-type: none"> <li>• Investment in vertical infrastructure</li> <li>• Development of visitor services (other than accommodations) and other winter and summer activities</li> <li>• International marketing and promotion</li> </ul>
<b>Proposed Actions:</b>	<ul style="list-style-type: none"> <li>• Meet with the Sarajevo Olympic Committee (ZOI) the organization overseeing development and marketing of the area and FIPA to discuss potential collaboration in privatization of ski lift operations and other tourism-related infrastructure.</li> <li>• Develop a business plan and investment prospectus for privatization of ski lift and development of tourism-related services; assist in promoting the opportunity to international and domestic investors.</li> <li>• Through the Sarajevo Cluster development process, encourage investors in the area to form a tourism association and develop a working relationship with ZOI to create and execute international marketing initiatives.</li> <li>• Work with tour operators in BiH to develop summer sports activities in the area, including mountain biking and mountain bike competitions, hiking, grass skiing and other warm-weather sports.</li> </ul>
<b>Actors:</b>	<ul style="list-style-type: none"> <li>• ZOI</li> <li>• FIPA</li> <li>• CCA Tourism Cluster team</li> <li>• Local investors</li> <li>• Foreign Investors</li> <li>• Tour operators</li> </ul>
<b>Desired Outcomes:</b>	<ul style="list-style-type: none"> <li>• Privatization and upgrade of vertical and other ski-related infrastructure</li> <li>• Investment in and development of a range of tourism-related services, including restaurants, shopping and nighttime entertainment.</li> <li>• International Winter Sports market development</li> <li>• Development of summer sports activities and events in the Bjelasnica area.</li> </ul>

## Ilidza

### Project Overview:

The city of Sarajevo has three poles of tourism-related activity and development. The first is the old part of the city, which contains many of the city's historic buildings and landmarks, the Turkish quarter, and most of Sarajevo's hotel capacity, restaurants, and nighttime entertainment. Its principal market is foreign leisure travelers.

The second is the midtown area, which is home to the country's largest office towers, embassies, and the city's largest hotel, the Holiday Inn. As discussed, plans are well underway to further consolidate this area as the center for corporate and diplomatic activity in BiH.

The third pole, and least developed of the three, is the Ilidza area, lying at the southwestern edge of the city. Located near a large River, a short drive from Igman and Bjelasnica, containing large parks and open green spaces, a mineral spa, three historic hotels (only one in operation), and the newly developed Terme Spa (Slovenian investment), it has the potential become a hub for tourism and recreation for foreign leisure travelers and local residents and a center for the meetings and convention market.

The historic hotels and spa were recently privatized. We were not able to arrange a meeting during the initial assessment phase of work. The purchaser of these properties reportedly does not have the capital necessary to refurbish the hotels or the spa and is actively seeking joint venture investment.

### Photos:






### Assessment:

These properties would appear to be a prime candidate for a CCA investment promotion initiative. The properties are already in private hands and the owner is apparently open to joint ventures with foreign investors.

	The area appears to have excellent development potential and is also home to significant new foreign investment (Therme Spa), which could serve as a catalyst for development of the area.
<b>Proposed Actions:</b>	Meet with FIPA and the owner to review his plans for these properties and explore the potential to assist in identifying and recruiting potential joint venture partners.
<b>Actors:</b>	FIPA Property Owner
<b>Desired Outcomes:</b>	Redevelopment of the hotels and spa.

### National Library

<b>Project Overview:</b>	<p>One of the largest and most architecturally significant buildings in the old part of the city, and one of the most visible signs of the destruction caused by the war. Again, rehabilitation of this structure would serve a number of important objectives; revitalization of the urban landscape, preservation of the city's cultural heritage, and creation of a major tourist attraction and an important symbol for the rebirth of the city.</p> <p>We were not able to collect any detailed information regarding future plans for this building. There are reportedly plans (unsubstantiated) that the building will be renovated and converted into the new City Hall. This would, in the view of the assessment team, be a monumental waste of this structure.</p>	
<b>Photos:</b>	 	<p><i>Left:</i> What it looked like before the war.</p> <p><i>Below:</i> What it looks like today.</p> 

<b>Assessment:</b>	<p>This building is ideally suited and situated to become a public-use facility, with potential uses ranging from a concert hall or performing arts center to restaurants, shopping and cinemas (to support expansion of the Sarajevo Film Festival), or other forms of entertainment and tourism-related services. Even redevelopment of the National Library would be preferable to conversion into a government office building.</p> <p>It is also unclear how rehabilitation would be funded if no commercial uses are envisioned (and perhaps why very little work has been done to date). Without a commercially-oriented development plan there would be no future revenue streams that could be used to service loans secured for redevelopment.</p> <p>In summary, this is one of Sarajevo's most beautiful buildings and should be redeveloped in a way that everyone can enjoy it, both residents and foreign visitors alike. It should be done on a commercial basis, so that the project can become self-financing.</p>
<b>Proposed Actions:</b>	<ul style="list-style-type: none"> <li>• Meet with city officials to determine the nature and status of current redevelopment plans. Discuss potential strategies for defining and implementing a rehabilitation program, including planning, financing, and investment promotion.</li> <li>• Based upon the results of that meeting, work to promote a commercially-viable development program.</li> <li>• Provide technical assistance for plan implementation, including definition of a legal structure that would allow for private development (not necessarily privatization) or creation of a public/private partnership, feasibility study, preparation of tenders and an investor prospectus, and recruitment of potential investors, developers, and tenants.</li> </ul>
<b>Actors:</b>	<ul style="list-style-type: none"> <li>• City and Canton Officials responsible for the redevelopment of the building</li> <li>• Investors and commercial developers</li> <li>• Potential tenants</li> </ul>
<b>Desired Outcome:</b>	<p>Commercial redevelopment of the building into a public-use facility</p>



## Krajina Cluster

## Lipizzaner Horse Farm

## Project Overview:

Established 1946, the Vucijak Lipizzaner stud farm has been in a nearly constant state of crisis for the past decade. Several attempts have been made over the past 6 six years to rescue the farm, including international appeals for assistance spearheaded by a Belgian employee of International Orthodox Christian Charities, a privatization scheme that involved a local businessman reportedly linked to Serbian war criminals who tried to dismantle the farm and sell off/export the horses, and more recently, transfer of majority ownership back to the government to come into compliance with International Lipizzaner Federation regulations requiring public ownership (in order to receive technical and other forms of assistance from the Federation).

Today the farm is still in crisis, with workers reportedly not receiving salaries for the past four months (half of the ten-person workforce no longer shows up for work). While the horses appear to have enough food and look to be in fairly good health (which has not been the case in the recent past), the situation still appears to be precarious. The barn and other structures are crumbling and the farm earns virtually no income. It relies on funding from the government and distribution of those funds by a director who appears to have very little interest in the farm or the horses.

This farm should be prized part of the country's cultural patrimony, and could, with minimal levels of investment, become a self-sustaining (if not highly profitable) enterprise. It could also add a great deal to the country's and region's tourism offer. Bureaucratic neglect and mismanagement and a lack of vision appear to be the principal obstacles to making the farm a major tourist attraction. The current ownership structure breaks down as follows:

55.5 percent government owned

44.5 percent Hippo Bank and other private shareholders

*Government ownership:*

Min. of Agriculture – 30%

Restitution Fund – 5%

Pension Fund – 10%

Municipality – 10%

Hippo Bank reported owns a ten percent stake and is interested in acquiring an additional 10 percent (from other private shareholders).

The farm is home to 57 horses, some of them the remaining remnants of rare Lipizzaner bloodlines. There are reportedly from 2,000 – 3,000 pure-bred Lipizzaners remaining worldwide. There are approximately 80 horses in Slovakia, 80 in Hungary, 40 in Romania, 100 in Slovenia, and 200 in Austria (at the Spanish Riding School). The bred was born in Lipica, Slovenia in 1580, bred by Archduke Charles II, from a mix of Spanish stock, Arabians, and local Karsts.

There are a number of examples and best practices for redevelopment of the farm, including facilities in Slovenia, Austria, and southern Spain. The farm also includes 350 hectares of land, suitable for farming and range of other potential uses. There is also a riding trail that extends for 22 kilometers that never comes within site of a road.

Photos:



The Barn, the most interesting structure on the site, now essentially abandoned, could potentially (if it is not beyond repair) be converted into a guest house for overnight visitors.





<b>Assessment:</b>	<p>A range of potential income streams could be developed in the short term, including horseback riding, riding lessons, a summer camp for children, a guest house and restaurant, farming, training horses to pull carriages, breeding and sale of brood stock, etc.</p> <p>Over the longer term a training school could be developed and an indoor exhibition center developed to host shows and special events.</p> <p>The principal obstacle to stimulating private sector investment in these enterprises may be the ownership structure. Investors are not likely to be willing to invest in a government-owned enterprise, particularly given the history of mismanagement. Privatization is not an option if the farm wants to remain a part of the ILF and benefit from technical assistance that the organization can provide.</p> <p>One alternative would be to develop and operate these businesses through a concession agreement with the publicly-owned company. Care and breeding of the horses would remain under government control, but with a direct source of income from concessions to ensure that the horses are well cared for. Hippo Bank might be a willing investor. Others could undoubtedly be recruited.</p>
<b>Proposed Actions:</b>	<p>Benchmark the Lipizzaner operation in Slovenia, <a href="http://hiddentrails.com/europe/slovenia/lipica.htm">http://hiddentrails.com/europe/slovenia/lipica.htm</a>, which reportedly generates several million dollars per year in revenues from visitors programs.</p> <p>Meet with the new RS Minister of Agriculture and other shareholders to explore options and reach consensus on a development strategy. Based upon reports from people interviewed, efforts may need to be made to replace the current chairman of the board, who was appointed by the above referenced local businessman (reportedly linked to war criminals), who no longer owns shares in the company.</p> <p>Meet with ILF officials to explore potential technical and marketing assistance.</p> <p>Define and execute a technical assistance and investment promotion plan.</p>

### Ostrozac Castle

<b>Project Overview:</b>	<p>Located near Bihac, on a broad promontory overlooking the Una River, the Castle dates to the 11<sup>th</sup> or 12<sup>th</sup> century. It was also the frontier of the Ottoman and Austro-Hungarian empires and has a rich history. A large residence was built within the castle walls at the turn of the 19<sup>th</sup> century. In the 1960's it was part of an artists' colony in the area. Several sculptures remain in the main courtyard.</p> <p>The Cazin municipal government, owner of the Castle, has identified it as one of its top development priorities. It has created, in cooperation with the Department of Preservation of Historical and Cultural Heritage (DPHCH), a draft redevelopment plan but is open to ideas and would welcome any form of technical assistance CCA can provide.</p> <p>There are a wide number of potential uses, including conversion of the residence</p>
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into a hotel or hunting lodge, or a public-use facility for weddings, festivals, and art exhibitions, development of special events on the grounds of the castle, including medieval Renaissance Festivals, traditional Krajina wedding ceremonies, concerts, theatrical performances, an art school, art exhibitions, etc.

Photos:



*Left: Castle walls and residence.*

*Below: Castle Tower, entrance to residence.*



*Above: One of several sculptures.*

*Left: Façade of part of the residence.*




*Right: Castle Tower.*



<b>Assessment:</b>	<p>The Castle looks to be an exceptional development/adaptive reuse project that could support a wide range of income-generating activities. It could also help catalyze development of the Bihac area, creating a major tourist attraction that could stimulate demand from a range of market segments.</p> <p>The government and DPHCH appear to be very opened-minded and eager to get the project underway. Both lack funding. Private investment, through a public/private partnership or concession agreements, would appear to be the most likely approach.</p> <p>The most significant challenge will likely be defining the highest and best use of the structure, in terms of generating income and stimulating development of related tourism services, events and enterprises.</p>
<b>Proposed Actions:</b>	<p>Hold follow-up meetings with the municipal government and DPHCH in an effort to define cooperative program for development of the Castle.</p> <p>Provide technical assistance for creation and implementation of an adaptive reuse plan and investment promotion.</p>
<b>Actors:</b>	<p>Cazin municipal government DPHCH Potential investors/concession operators Tour operators</p>

### Banja Vrucica Spa

<b>Project Overview:</b>	<p>The Banja Luka area has been famous for its mineral springs and spas reportedly since Roman times. The word Banja translates to spa or bath.</p> <p>The region is home to several spas. Two were visited during the assessment, but neither appears to have significant near-term development potential. The spa that reportedly has the best potential is one we were not able to visit, Banja Vrucica, located near Teslic.</p> <p>The assessment is based upon the size (the largest in the area), ownership structure (majority private owned), and recent renovation of facilities.</p> <p>The spa, situated on 74 hectares of land, reportedly includes six hotels and over 1,000 beds and a well known diagnostic center for diagnosing and treating a range of respiratory, circulatory, skin, and metabolic illnesses and is said to employ more than 300 people.</p> <p>It was also reportedly the focus of a DFID technical assistance project in 2002-2003, though the results of that effort are unknown.</p> <p>Spas in BiH today focus almost exclusively on the local therapeutic market. The development of more modern spa markets, including health, beauty, fitness and wellness are virtually unexploited. This segment is one of the world's largest and fastest growing travel market segments and should be explored for future market development.</p>
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<p><b>Photos:</b></p>	   <div data-bbox="1220 884 1412 1332"> <p>While it appears, from the webpage, to be the most modern spa in the region, there is likely a significant product gap to be overcome in attempting to attract an international spa market.</p> </div>
<p><b>Assessment:</b></p>	<p>Perhaps some meaningful potential to refocus part of spa operations on new market segments focused on health, fitness, beauty and wellness. If it operates, as presumed, on the model of other spas we visited, i.e., very low end, primarily therapeutic, an amazingly low average rate of 25 euros per day per person, including room, board, and spa treatments, there is likely a significant opportunity to bring these facilities more up-market and significantly increase their income and profit potential. These spas also tend to be very seasonal (May – October) as apparently local clients believe it is unhealthy to bath in these heated mineral baths during the winter (as reported by the director of the Gata Spa, they're afraid they'll catch a cold.)</p>
<p><b>Proposed Actions:</b></p>	<p>Make an assessment visit to the spa, meet with the owners, evaluate the potential. If it appears to be a realistic opportunity, discuss potential collaboration.</p>



<b>Actors:</b>	Spa owners
<b>Desired Outcomes:</b>	Upgrade and refocusing at least a portion of the spa toward higher spending international market segments, perhaps in collaboration with joint venture partners. Could serve as a pilot project and best practice example for the dozens of other spas and mineral springs located throughout the country.

## Herzegovina Cluster

### Vjetrenica Cave

#### Project Overview:

Located less than one hour from one of the most visited tourist attractions in Southeastern Europe, Dubrovnik, Vjatrenica Cave has the potential to become a significant tourist draw for tourists visiting the Croatian coast, and a gateway to promoting other Herzegovina visitor excursions. It is also less than a 90-minute drive from Medjugorje, another major source market for foreign visitors.

Located in the visually dramatic Popovo Polje valley, near the village of Ravno, the Cave is a small part of one of the world's largest cave systems, stretching from Slovenia through Croatia. The cave is passable for more than 1.5 kilometers and contains underground lakes, waterfalls, and a variety of other interesting geological formations. There are also reportedly cave drawings (of bears and leopards) inside the cave that date back 10,000 years and remains of an ancient wood canoe.

Contrary to the information presented on the newly revamped BiH tourism web portal, the cave is has no lighting system and is not open to the public. A detailed lighting plan was, however, recently completed. The missing ingredient is funding. The cost estimate for system installation is 400,000 euros.

The cave and surrounding area have a great deal of potential visitor appeal and could be developed a half-day or full-day excursion. Other attractions include the remains of what appears to be a medieval village, perched on the side of a mountain and offering dramatic views of the valley below, and less than two kilometers from the cave an Orthodox Christian Monastery which contains a medieval chapel with 15<sup>th</sup> century frescos.

The village of Ravno could also be developed as an authentic cultural experience for visitors. Local residents produce honey and other agricultural products.



#### Photos:



The cave



Canoe

	<div style="display: flex; justify-content: space-around; align-items: center;">   </div> <div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: fit-content;"> <p><i>Above:</i> A view of the valley</p> <p><i>Right:</i> inside the Monastery</p> </div>
<b>Assessment:</b>	<p>The cave, monastery, and nearby villages have a great deal of potential appeal for visitors to nearby Dubrovnik and Medjugorje. The investment, 400,000 euros, required to make the cave operational could likely be paid back very quickly (a few years) from visitor entry fees. Opening up of the cave to foreign visitors could also potentially catalyze the development of nearby villages and perhaps lay the foundation for overnight visits to this part of Herzegovina.</p>
<b>Proposed Actions:</b>	<ul style="list-style-type: none"> <li>• Meet with government officials (not yet identified) responsible for the cave. Discuss potential collaboration.</li> <li>• Conduct market research and develop a business plan for development of the cave as a potential tourist attraction/excursion from nearby tourism centers.</li> <li>• Execute an investment promotion program, including identifying potential investors, deal structure, sources of financing, and a marketing and development plan.</li> </ul>
<b>Actors:</b>	<ul style="list-style-type: none"> <li>• Responsible government agencies</li> <li>• CCA tourism cluster team</li> </ul>
<b>Desired Outcome:</b>	<p>Opening of the cave as a regional tourist attraction.</p>

Pocitelj Village	
<b>Project Overview:</b>	Need to send this to Alvin, or ask him for a copy of the report he prepared. I don't have any information on what is being proposed. If you have something available please forward.
<b>Photos:</b>	
<b>Assessment:</b>	
<b>Proposed Actions:</b>	